

ANALYSIS OF PRIVATE TRANSFERS IN THE BALANCE OF PAYMENTS OF REPUBLIC OF NORTH MACEDONIA IN THE PERIOD OF 2015-2020

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Abstract

Balance of payments and international investment position data are critical in formulating national and international economic policy. Certain aspects of the balance of payments data, such as payment imbalances and foreign direct investment, are key issues that a nation's policymakers seek to address. By studying BOP statement and its components closely, we would be able to identify trends that may be beneficial or harmful to the economy of the county and thus, then take appropriate measures, moreover the BOP provides important information to analyze and understand the economic dealings of a country with other countries. Considering the importance of this category of transfers in the home countries, in accordance with the high amounts achieved and the strong growth, not only in Macedonia but also in the region, these transfers cause increased interest among the scientific community, especially in terms of their potential to support economic country development. Despite the high amounts of registered inflows from emigrants and seasonal workers abroad, it is believed that the volume of funds arriving through informal channels is large. The Republic of North Macedonia is characterized by a long tradition of migration. Although the most popular destinations are known, the exact number of migrants abroad is not fully known. Considering the above mentioned, the subject of this paper will be an analysis of the role and importance of private transfers as an important category in the balance of payments of the Republic of North Macedonia, their role in improving the country's gross domestic product and relevance in improving living standards. of the population as a last resort. The paper will apply relevant reports from renowned international institutions that are most prominent on this issue, and through appropriate analysis will draw specific conclusions.

Keywords: balance of payments, private transfers, remittances, exchange market.

Introduction

In the BOP statistics of Republic of North Macedonia, the private transfers include: remittances of emigrants through formal channels, cash transfers through informal channels shown through the net purchased cash on the exchange market channeled in the banking sector and other transfers (most of which are rents, pensions, invalids, etc.). Cash transfers are the most important component of private transfers in RSM.

These are the net foreign cash purchased by the authorized exchange offices sold to the banks and the net cash purchased by the banks during the exchange operations, which serves as an approximate amount of private cash transfers in the absence of other more appropriate data sources.

This methodological approach is due to the belief that most of the foreign cash on the foreign exchange market comes from remittances through informal channels.

In continuation of the paper, this category of transfers in the period from 2015-2020 will be analyzed, across all formal and informal channels.

1. Literature Review

This topic is of considerable interest to the world public and with special emphasis on the countries where private transfers end.

On a regular annual basis, the International Monetary Fund, the World Bank and the European Statistical Office publish data on the number of emigrants from the respective countries, the amount of private transfers through official channels. In the case of RSM, the National Bank, the State Statistical Office, and the Emigration Agency publish these reports on their websites.

In addition to the above-mentioned institutions, several international and domestic authors have written on this issue. Namely, several theoretical and empirical studies analyze the impact of remittances on macroeconomic variables, such as consumption, investment and growth in recipient countries. In this regard, in 2013 the author **Dilip Ratta** (Chief Economist and Head of Migration and Remittances at the World Bank) at the Migration Policy Institute in Washington DC - USA (Migration policy institute) published a study on *"The Impact of Remittances on economic growth and poverty reduction"*.

There is empirical evidence that remittances contribute to the economic growth of the recipient country, through their positive impact on consumption, savings and investment. In 2009, authors Paola Guliano (Professor at UCLA Anderson School of Management - Los Angeles, United States) and Martha Ruiz Arranz published a study in the Journal of Development Economics: *"Private Transfers, Financial Development and growth" (Remittances, financial development, and growth)*

2. Concept and characteristics of private transfers - in the context of international literature

A country's balance of payments is a systematic overview of all economic transactions between residents of one country and residents of all other countries over a period of time (usually over one year). Several countries, including the United States, publish quarterly balance of payments data (**Kovacevic Radovan, Medunarodne Finansije, 2010**).

Namely, the balance of payments (BOP) summarizes all transactions that individuals, companies and government bodies of a country complete with individuals, companies and government bodies outside the country. These transactions consist of import and export of goods, services and capital, as well as transfer payments, such as foreign aid, remittances, etc.

The balance of payments statistics of the Republic of Macedonia are basically prepared in accordance with the methodology of the International Monetary Fund (IMF) by publishing the data on a monthly basis, in millions of euros (€) and US dollars (\$), and transactions denominated in other currencies are converted into € and US \$ equivalent of the exchange rate on the day of the transaction.

Private transfers are the subject of increasing interest from the scientific community worldwide. Several research papers in this area estimate that individual remittances from expatriates in developing countries have exceeded US \$ 100 billion in recent years.

According to a report by the Aite group “ (Aite Group-Consultants and Analysts, 2005) It is concluded that the private transfers of emigrants globally in the period 2005-2007 grew at a constant annual rate of 8%, which in 2008 reached the level of 289 billion US dollars, while after 10 years these transfers increased to 548 billion USD. (World Bank Report).

In the World Bank report “Remittance flows” (The World bank, 2021) Despite COVID-19, remittance flows remained resilient in 2020, recording a smaller decline than previously predicted. Officially registered remittances to low- and middle-income countries reached \$ 540 billion in 2020, just

Pursuant to the Law on the National Bank of the Republic of Macedonia and the regulations (Official Gazette of RNM, 2010) in the field of foreign exchange operations, the National Bank of the Republic of Macedonia (NBRM) is responsible for compiling and monitoring the execution of the

1.6 percent below the \$ 548 billion total in 2019, according to the latest Migration and Development Briefing. According to the same report, global growth is expected to recover further in 2021 and 2022, remittance flows to low- and middle-income countries are expected to increase by 2.6 percent to \$ 553 billion in 2021 and by 2, 2 percent to \$ 565 billion in 2022.

Despite the high amounts of inflows from emigrants and seasonal workers abroad through the formal channel, it is believed that the volume of funds arriving through informal channels is also large.

3. Private transfers in the countries of Southeast Europe

The region of Southeast Europe is a significant net recipient of private transfers. The analysis of the countries in the region shows that Croatia, Serbia and Bosnia and Herzegovina are the largest recipients of private transfers, both nominally and on a net basis. However, in relative terms, net private transfers are of the greatest importance for Kosovo, Albania and Bosnia and Herzegovina, with a share of 18.9%, 9.9% and 9.2% of GDP, respectively, on average in the period 2020 (The World Bank, Personal remittances, received, 2020) (The World Bank , Personal remittances, received , 2020). In North Macedonia, in the same analyzed period, net private transfers recorded an average share in GDP of 3.4%. In the analyzed 7 countries in the region, in 2020, based on private transfers, a net inflow of 13.9 billion US dollars was realized.

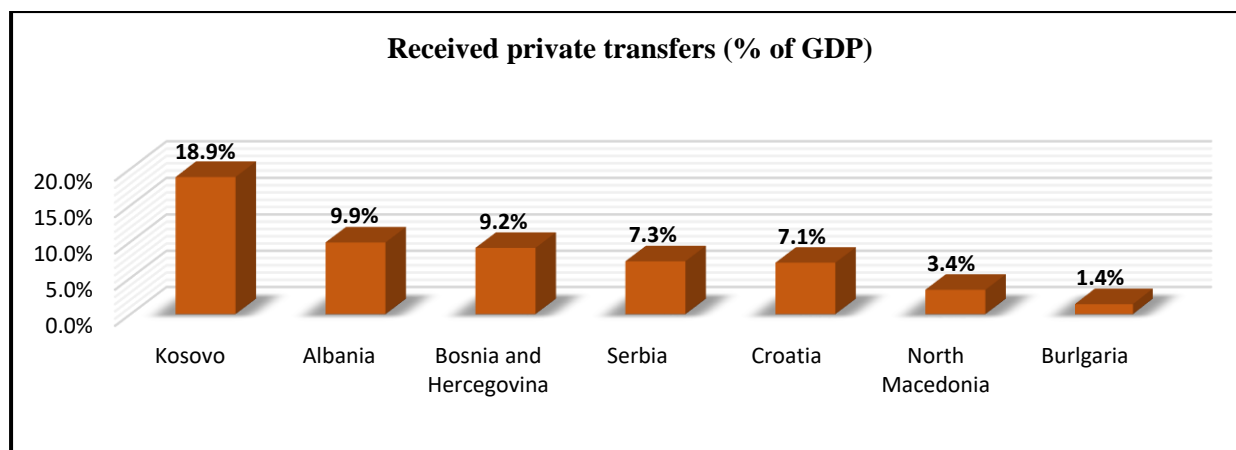


Figure 1: Private transfers as% of GDP of countries in the region according to the World Bank 2020 report
Source: (The World Bank , Personal remittances, received , 2020)

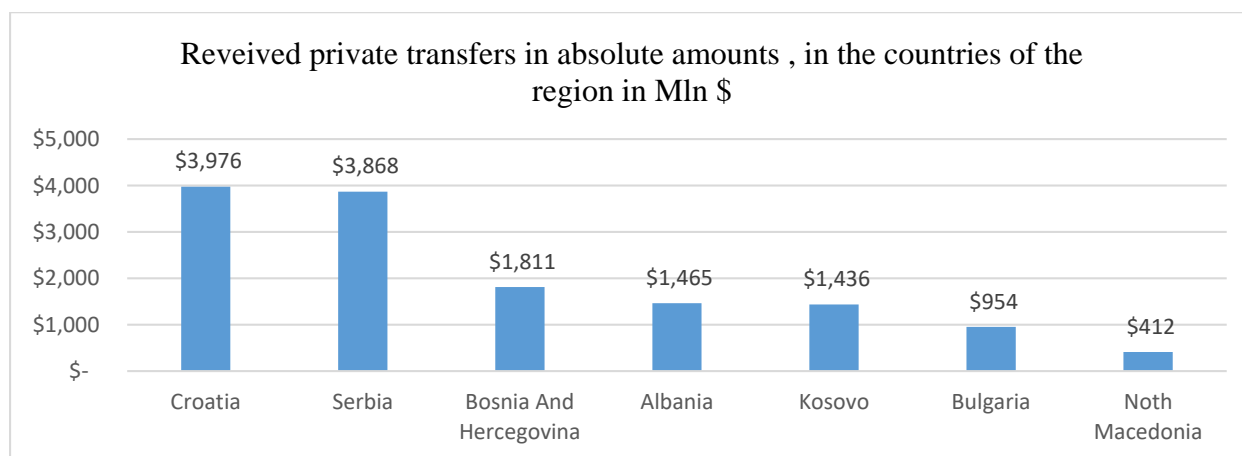


Figure 2. Report on received private transfers in absolute amounts in Million \$ in the countries of the region according to the World Bank 2020
Source: (The World Bank , Personal remittances, received , 2020).

In any comparative analysis of private transfers by individual countries, the methodological differences between national statistics must be taken into account. In the Republic of Macedonia, the main source of information on private current transfers is the ITRS (**International Transaction Reporting System**) of banks.

4. Components of private transfers in Republic of North Macedonia

5.1. Remittances as a component of private transfers

In the balance of payments statistics of the Republic of North Macedonia, private transfers consist of: remittances to and from abroad, cash transfers shown through the purchased foreign assets on

the exchange market that is channeled in the banking sector and other transfers, most of which are rents, pensions, disability and other. (Nbrm.mk, 2021).

In the Republic of Macedonia, the inflows of bank remittances from emigrants abroad have an increasing relative importance for the economy, representing 3.4% of GDP, on average in 2020.

Table 1: Inflows of bank remittances from expatriates for 2020.

	2015	2016	2017	2018	2019	2020
2.2. Capital Transfers	5.94	12.05	20.07	9.88	9.84	9.78
2.2.a. Inflows	6.17	12.36	20.24	9.93	9.95	9.79
2.2.b. Outflows	0.23	0.31	0.17	0.06	0.11	0.00
2.2.1. State	0.00	0.00	0.00	0.00	0.00	0.02
2.2.1.a. Inflows	0.00	0.00	0.00	0.00	0.00	0.02
2.2.1.b. Outflows	0.00	0.00	0.00	0.00	0.00	0.00
2.2.2. Financial institutions, Nonfinancial institutions, Households, and nonprofit institutions which serves the households	5.94	12.05	20.07	9.88	9.84	9.77
2.2.2.a. Inflows	6.17	12.36	20.24	9.93	9.95	9.77
2.2.2.b. Outflows	0.23	0.31	0.17	0.06	0.00	0.00

Source: (NBSTAT, 2015-2020)

Based on the analysis of the data in Chart No. 3 and Chart No. 4, private bank remittances are a significant source of financing the current account deficit of the balance of payments from foreign direct investment, in the period 2015-2020.

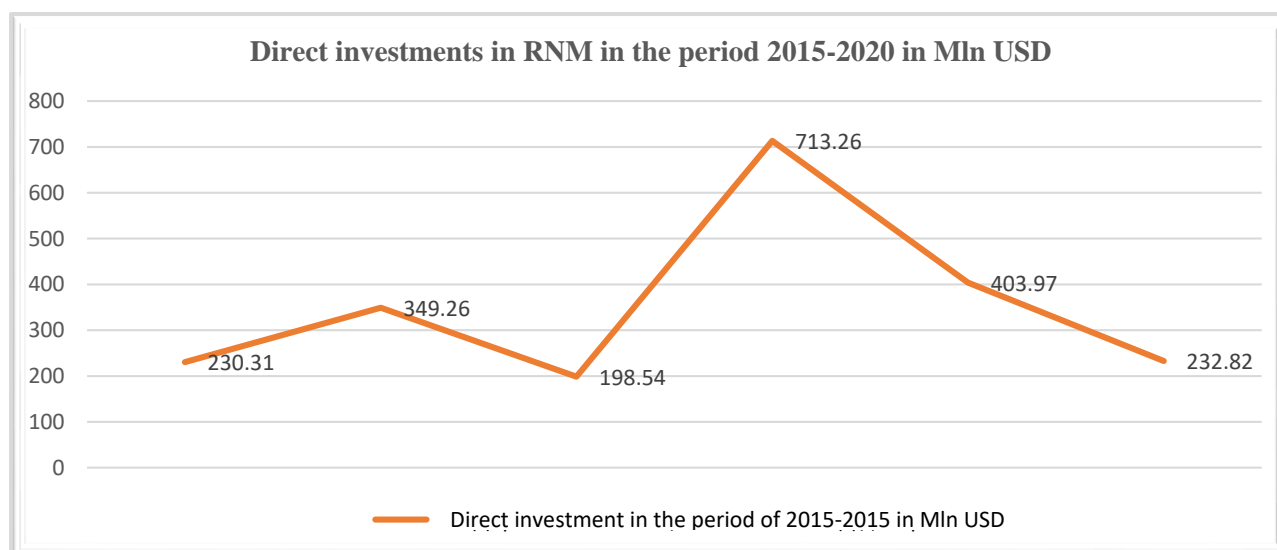


Figure 4: Direct investments in RNM in the period 2015-2020 in Million USD.

Source: (NBSTAT, 2015-2020)

Table 2: Data on (secondary income) personal transfers, remittances from workers, and other current transfers in Million USD in RNM in the period 2015-2020**Balance of payments of the Republic of North Macedonia, secondary income by years**

	2015	2016	2017	2018	2019	2020
1.4.2 Current transfers , except state(Financial institutions, non-financial institutions , Households and nonprofit institutions which serves the households						
Millions US Dollars	1,695.90	1,647.44	1,809.46	2,001.46	1,927.47	1,504.38
1.4.2.1 Personal transfers (Current transfers between residents and nonresident households)						
Millions US Dollars	215.41	195.65	198.28	217.34	199.92	299.83
1.4.2.1.1 Of Which : Remittances from workers						
Millions US Dollars	215.41	195.65	198.28	217.34	199.92	299.84
1.4.2.2 Other current transfers						
Millions US Dollars	1,480.49	1,451.79	1,611.18	1,784.50	1,727.55	1,204.55

Source: (NBSTAT, 2015-2020).

If we observe the trend of the rates of change of inflows with remittances from emigrants abroad and the trend of inflows of foreign direct investment, it is noticeable that both linear trends are followed throughout the analyzed period (2015-2020).

The decisions of foreign investors and expatriates to transfer funds in the home country to families (especially the part for investment purposes) largely depend on the business climate. In this regard, the Survey on the Business Environment and Efficiency Programmes (BEEPS, 2019-2020) Published in „Transition Report 2019“ (EBRD, 2019-2020), shows that in RNM, despite the high ranking of Doing Business, the business environment needs to be further improved.

5.2 Other transfers as a component of private transfers in RSM

Due to the diverse nature of remittances that make up the "other transfers" category, it is expected that these transfers will show variability analyzed over a longer period of time.

Cash transfers through informal channels, shown through the net purchased cash on the exchange market that is channeled in the banking sector, are the most important component of private transfers in the Republic of Macedonia, which in the period 2015-2020 accounted for about 73.5%, on average, of the total private transfers. Hence, private transfers through informal channels show permanent growth in absolute amount with relative share in GDP in the period 2015-2019 (12% on average), except in the last 2020 where the share decreased to 8% primarily due to the corona crisis. (NBSTAT, 2015-2020). Considering their size, private cash transfers are an important source of trade deficit financing and have a positive effect on the overall current account.

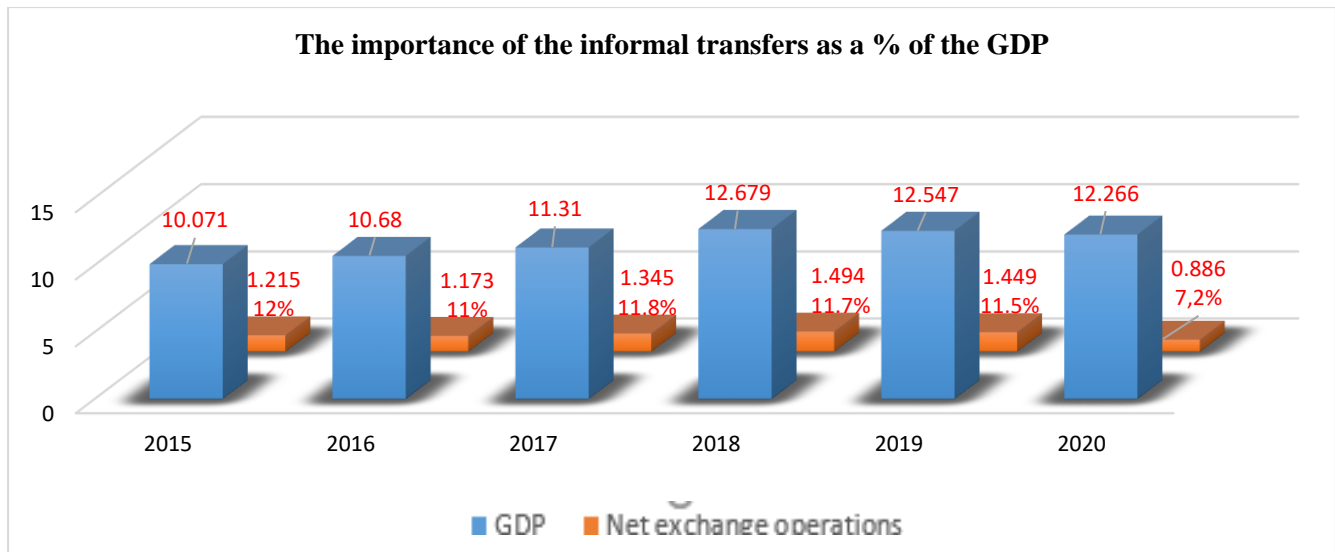


Figure 8. The importance of informal transfers as % of GDP.
Source: (NBSTAT, 2015-2020)

The presentation of the total foreign assets that the authorized exchange offices sell to the banks and that the banks purchase on a net basis through the exchange operations as private cash transfers, in the absence of more appropriate data sources, is due to the belief that most of the foreign assets of the exchange market arises from the remittances of emigrants through informal channels.

However, in the foreign exchange market, apart from the private cash transfers, cash flows on other grounds as well, which indicates an overestimation of this item, as opposed to the underestimation of some other balance of payments categories.

The crisis and the closure of the borders of most countries. In addition to the same fact is the fact that the number of residents working in international missions and organizations on the territory of the Republic of Macedonia, as well as in foreign diplomatic and consular missions (whose income is usually realized in foreign currency) is not so high for to be the main driver of the extraordinarily high net purchase on the foreign exchange market. In addition, the paper focuses on the elaboration of factors that have a greater impact on the supply of foreign currency in the country, the analysis of the exchange market, as well as the analysis of the scope of this category and its treatment within the country's balance of statistics.

5.3 Fast money transfer

Based on the records kept in the NBRM, at the end of 2020 on the territory of RSM there are 9 fast money transfer service providers and 211 subagents who have concluded agreements with several fast money transfer service providers and which provide services on 211 places. In 2020, based on fast money transfer, resident individuals raised foreign cash in the amount of Euro 287.9 million, which is 97% of the total foreign cash raised in 2020 through this channel. The importance of fast money transfer is reflected in the fact that the share of payment of remittances in the total remaining private remittances by formal channel in 2020 is 25%, while the payment for money

transfer abroad with fast money transfer participates with 40.5% of the total outflows from private remittances.

Table 3: Realized turnover on the basis of services fast money transfer by months and by currencies for the period 01.01.2020 to 31.12.2020

Month	Cur renc y	Inflows			Outflows			Total inflows	Total outflows	Grand total
		Reside nts	Non reside nts	Total	Resident s	Non reside nts	Total	Residents and non- residents	Residents and non- residents	Residents and non- residents
01.01- 31.12.2 020	000, Eur	32,239	2,744	34,98 3	287,918	6,017	293,936	34,983	293,936	328,920

Source: (NBSTAT, 2020)

The total payment of foreign cash for fast money transfer abroad in 2020 is 34.9 million euros, of which 32.2 were made by residents of 6.0 million euros by non-residents. In the same year, the total payment of remittances based on fast money transfer reached 293.9 million euros, of which most of the amount of 289 million euros were paid to residents while 2.74 million to non-residents. In terms of monthly dynamics, in 2020, the highest payments of private transfers were made in May, June and July, which may be related to the end of the spring-summer period for seasonal work abroad.

On the other hand, the payment for private transfers abroad has relatively stable amounts, which in most of the year amount to 0.73 million euros per month, of which 0.6 from residents and 0.22 from non-residents. In 2020, fast money transfer was performed with over 130 countries, with most of them the transfer is done in both directions, i.e. in and from RNM.

5. Purpose of the emigrant's remittances from RNM

In terms of the purpose of sending money by Macedonian emigrants to their families, based on his own survey conducted in 2004, Dr. Seadin Xhaferi (Seadin Xhaferi, 2004) comes to the following conclusions:

- + More than half (54.6%) are intended for meeting the basic needs of the family in the home country, i.e. for personal consumption of family members,
- + 13% are sent for repair or purchase of a new home,
- + 15.3% are intended for investments in Macedonia
- + 3.1% of the funds are for savings in a bank
- + For Buying / building a house-apartment 9.2%
- + The remaining 4.8% are for other purposes.

Table 4: Results from the survey by Dr. Seadin Xhaferi in 2004 with the topic - The purposes of sending money from emigrants

Purpose of sending money by emigrants	
Purpose	Number of persons in %
For Family needs	54.6
Whitewashing of houses	13.0
Home investment	15.3
Deposit in Banks	3.1
House/apartment Buying	9.2
Other	4.8
Total	100
Ways of sending remittances to the Republic of N. Macedonia	
Way	Number of persons in %
Hand delivery	56.4
Through bank Transfer	15.7
Sending through friend/ Relative	25.6
Other	2.3
Total	100

Source: Research form prof Seadin Xhaferi - The purposes of sending money Macedonian emigrants to their families -2004

Although it is assumed that Macedonian emigrants in foreign countries mostly use banking services (in highly developed economies, payment of wages is mandatory through banks), they still mostly use informal channels to send remittances to their home countries. The reasons, in addition to the high cost of money transfer more formally, can be seen in the following:

- ✚ **The access** to the banking services in RSM for the families of the emigrants is suboptimal despite the significant geographical expansion of the branches and branches of the commercial banks in the country in the last years.;
- ✚ **The anonymity** provided by the physical transfer of money, especially in cases when it comes to large money transfers that would be subject to control by the competent authorities for prevention of money laundering, both in foreign countries and in the RNM;
- ✚ **Strengthened controls** by immigrant bureaus in developed countries (especially the terrorist attacks in the United States on September 11, 2001) stimulated the use of informal remittances by illegal immigrants. of the countries in which Macedonia has the largest diaspora (50% of the emigrants live in Germany, Austria, Italy, Switzerland) 17. Namely, for this category of emigrants it is assumed that they visit their families more often, among other motives, they use it to avoid bank fees.

6. Conclusions

Money transfers of emigrants to their home countries, in line with the high amounts achieved and strong growth, not only in Macedonia but also in the region cause increased interest among the world scientific community, especially in terms of their potential to support the economic development of the country. Despite the high amounts of registered inflows from emigrants and seasonal workers abroad, it is believed that the volume of funds arriving through informal channels is large.

The exchange market in RSM is of great importance from the aspect of the movement of the purchased foreign assets.

According to statistics on the number of Macedonian emigrants in the world published by the Emigration Agency of the Republic of Macedonia, the Macedonian diaspora has 500,000 people (according to unofficial sources, the number of emigrants is twice as high). In the absence of data on the structure of emigration by geographical regions in RSM, and knowing that Skopje, Bitola, Ohrid, Tetovo and Gostivar are traditional urban centers of emigration, it could be concluded that in urban and rural municipalities with medium and low level The HDI (Human Development Index) accounts for a significant number of permanently displaced and temporarily employed persons abroad.

This redistribution of the purchased cash on the foreign exchange market to individual balance of payments items would be the first attempt of its kind and thus would create a basis for further analysis and surveys that would more clearly determine the size of private cash transfers, as well as cash inflows on other grounds, for their more appropriate recording within the balance of payments.

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